BY THE COMPTROLLER GENERAL

Report To The Joint Committee On Taxation

OF THE UNITED STATES

Changes To Appeals Process Could Improve Settlements And Increase Taxpayers' Satisfaction

Individual taxpayers are generally satisfied with their settlements and treatment by Appeals' personnel. Appeals' settlements, however, may not be as uniform and consistent as possible. Factors such as Appeals office location and whether the taxpayer petitioned the Tax Court have an effect on the rate of tax and penalty reduction. GAO points out the need to improve the effectiveness of Appeals' management control system and also makes suggestions which should lead to more uniform and consistent settlements.

SUMMARY

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COMPTROLLER GENERAL'S REPORT
TO THE JOINT COMMITTEE ON
TAXATION
CONGRESS OF THE UNITED STATES

CHANGES TO APPEALS PROCESS COULD IMPROVE SETTLEMENTS AND INCREASE TAXPAYERS' SATISFACTION

D I G E S T

The Internal Revenue Service (IRS) could improve settlement of cases in the Appeals Division and increase taxpayer satisfaction with its handling of cases by

--strengthening management controls that identify problems with settlements (see pp. 17 to 43) and

--reducing the time it takes to handle such cases (see pp. 53 and 54).

The Joint Committee on Taxation asked GAO to examine IRS' appeals process for resolving disputes with taxpayers who disagree with the results of their audits. GAO also obtained information (1) from taxpayers on their experiences with the appeals process and (2) on proposed legislation to help safeguard taxpayers' rights and insure impartial treatment by IRS.

GAO's statistical analysis of 577 closed cases showed that taxpayers stand an excellent chance of having their proposed audit adjustments reduced when they appeal their cases. Actually, 84 percent of the adjustments proposed by examiners were subsequently reduced or eliminated by IRS. (See pp. 7 to 12.)

UNIFORMITY AND CONSISTENCY OF APPEALS SETTLEMENTS QUESTIONABLE

The Appeals Division has the responsibility of seeing that cases involving similar circumstances are settled as uniformly and consistently as possible throughout the Nation. There is little assurance, however, that this is happening.

GAO identified several factors which Appeals considered in settling cases. The effect these factors had on settlements varied substantially by the location of the Appeals office and whether the taxpayer petitioned the Tax Court. In a uniform and consistent appeals atmosphere, such variations should be at a minimum. (See pp. 9 to 12.)

SUPERVISORY AND MANAGEMENT CONTROLS ARE NOT ADEQUATE

To help achieve the objective of uniformity and consistency, Appeals has designed a management control system which is comprised of three major components: (1) supervisory case reviews, (2) regional post reviews, and (3) nationwide special issue post reviews. However, the individual components of the system were not meeting their objectives. The deficiencies GAO noted in the reviews reduced the system's effectiveness in insuring uniform and consistent settlements.

Supervisory case reviews

Supervisory case reviews by Appeals supervisors are a key means of monitoring decisions because the review is to take place before the case is closed and, thus, allows deficiencies to be more easily corrected. GAO found, however, that the effectiveness of many of these reviews was limited, because:

--Most reviews were not made until after an initial settlement was proposed by the appeals officer. (See p. 19.)

--Reviews were not performed in sufficient depth and not adequately documented. (See pp. 20 and 21.)

--Supervisors were providing appeals officers with only limited feedback. (See pp. 23 to 24.)

Regional post reviews

Post reviews can be a valuable element of management control. Specifically, they can be the mechanism that compares completed results against established standards. GAO found, however, that regional post reviews are not a useful control tool because review standards are too vague and inconsistently applied. Consequently the results lack uniformity and cannot be meaningfully analyzed. (See pp. 27 to 41.)

A test of the effectiveness of regional post reviews illustrates this problem. GAO asked 24 supervisors and officers experienced in reviewing Appeals settlements to review and comment on 10 test cases as they would during a

normal post review. Although some inconsistency is to be expected when human judgment is involved, the variation in reviewers' comments on the test cases showed substantial disagreement over technical and case management aspects of settlement decisions. Many of the differences occurred because IRS review guidance was too vague to be consistently interpreted or applied.

Nationwide special issue post reviews

The nationwide post review evaluates the uniformity and consistency of Appeals cases involving special issues selected by the IRS national office. The usefulness of this review as a control mechanism is limited, however, because the documentation supporting the appeals officer's decision is frequently insufficient for reviewers to properly evaluate the actions taken on the case. In addition, there is no assurance that feedback on review results is given to branch office managers and discussed with appeals officers. (See pp. 41 to 43.)

TAXPAYERS ARE GENERALLY SATISFIED WITH THE RESULTS OF THEIR APPEAL

GAO surveyed individual taxpayers about their perceptions of the administrative appeals process. Although the respondents indicated that they were generally satisfied with their treatment by Appeals, many were dissatisfied with the amount of time required to settle their cases. (See pp. 49 to 54.)

IRS is implementing a nationwide work planning and control system and making changes to the Examination Division's automated management information system. These changes should assist in preventing processing delays.

Responses to GAO's questionnaire also showed that the majority of taxpayers did not have an accountant or attorney representing them. Half of them did not have representation because they felt they could deal with IRS themselves. GAO's study did not show that representation influenced the settlements made at Appeals.

Twenty-two percent of the taxpayers responding to GAO's questionnaire cited the continued cost of appealing their cases as the reason which best described why they decided to settle with Appeals. The cost of taking the case to court may therefore have caused some taxpayers to accept a settlement they did not agree with.

The Congress has been concerned about taxpayers' ability to afford the cost of resolving disputes. Both Houses of Congress have recently passed bills which deal with this matter and conferees have been appointed to resolve the differences. As of July 16, 1982, however, this legislation had not been reported out of the Conference Committee. (See pp. 47 and 48.)

AGENCY COMMENTS

IRS, in commenting on a draft of this report, generally agreed with GAO's proposals for improving management controls over the Appeals process. (See app. I.)

IRS commented that its procedures have been or are in the process of being revised. These revisions include:

--Increased guidance on conducting comprehensive supervisory reviews. (See pp. 25 and 26.)

--Improved procedures for performing and recording the results of regional reviews.

--A systematic approach to providing feedback on the results of reviews. (See pp. 45 and 46.)

IRS agreed with GAO's proposal that Appeals supervisors be required to document their evaluations of cases and revised its instructions. GAO, however, does not believe that the revision adequately changed the supervisory case documentation requirement. GAO remains convinced that such documentation is necessary in order for IRS to properly assess how well supervisors are reviewing the work of appeals officers.

RECOMMENDATION TO THE COMMISSIONER OF INTERNAL REVENUE

The Commissioner should require Appeals supervisors to document their case assessments. (See p. 26.)

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